

PROPERTY TAXES TITLE 84 RCW

Tax Base

Property taxes apply to the assessed value of all taxable property, which includes all real and personal property located within the state, unless specifically exempted. Real property includes land, structures, and certain equipment that is affixed to the structure. Personal property includes machinery, supplies, certain utility property (e.g., dams), and items which are generally movable.

REAL PROPERTY. The assessed value of most real property is determined by the county assessor. The goal of the appraisal process is the fair market value of the property, according to its highest and best use. Appraisal methods used may include: (1) sales of comparable properties in the same area, (2) estimation of the cost to replace the structure, and (3) determination of the present value or the income potential of the property. Typically, the assessor revalues real property including a physical inspection once every four years (i.e. one-quarter of the county revalued each year). Some counties adjust the values each year between physical inspections based on statistical data, while others revalue all property every two or three years. The county plans for revaluation of real property, including the length of the cycle, must receive prior approval of the Department of Revenue.

Not all property is valued according to the highest and best use criterion. Agricultural, open space, and timber lands that are approved for inclusion in the open space program are valued by considering only their current use, pursuant to a constitutional amendment adopted in 1968. For farm lands in the program, the values are determined by the assessor by capitalizing the net cash rental value of similar lands. Forest lands are likewise valued by considering only their use for growing timber. Their value is determined by the state, which annually updates statutory forest land values. Residential values of senior citizens/disabled homeowners eligible for property tax exemption are frozen as of the January 1, 1995 value (or the initial year of application if later than January 1, 1995) until the property is sold or the applicant is no longer eligible.

PERSONAL PROPERTY. Major types of personal property that are taxable consist of machinery, equipment, and supplies of businesses and farmers, nonattached mobile homes, state-assessed commercial boats, and most of the operating property of public utilities. Items that are exempt include household goods, certain intangibles, and business inventories. Owners of personal property list the items, their acquisition cost, and the year acquired with the county assessor each year. The assessor then determines the current assessed value.

Tax Rate

Property tax rates consist of the annual levy rates applied to the assessed value of taxable property by the various taxing districts, including the state and various local jurisdictions which have levy authority under state law. Currently, there are approximately 1,769 taxing districts throughout the state. A taxing district's levy rate must apply uniformly throughout the district boundaries. However, because of the many overlapping jurisdictions, there are about 3,150 code areas in which a particular combination of levy rates may apply.

Property tax levy rates are expressed in terms of dollars per \$1,000 of assessed value. For example, a rate of \$1.00 means that for every \$1,000 of assessed value the property owner will owe property taxes amounting to \$1.00. As an illustration, property assessed at \$100,000 would owe \$100 in property taxes for a levy rate of \$1.00.

REGULAR LEVIES. Taxing districts are authorized by state law to levy a certain rate each year without approval by the voters; these are commonly referred to as regular levies. In the aggregate, most local regular levies cannot exceed \$5.90 of assessed value (RCW 84.52.043). A few regular levies are outside of the maximum rate limit; these include levies for conservation futures, affordable housing, and emergency medical services. "Junior" taxing districts, e.g. fire, library, hospital, etc., have a designated statutory regular levy rate which, when combined with all other local levies in a particular tax code area, may exceed the maximum local rate of \$5.90, if all districts were able to levy their maximum amounts. When this situation occurs, the rates must be prorated among the districts, according to a statutory mechanism for reducing certain junior district rates until the aggregate falls within the limit. Some local levies are authorized for a maximum number of years; for example, levies for park and recreation districts may extend for a period of up to six years.

The state levy rate (for the support of schools) is set by statute at \$3.60 per \$1,000 of fair market value - not assessed value. Thus, for purposes of the state levy the actual rate that applies in each county must be adjusted by the relationship between the county's total assessed value of all property and the estimated market value. This relationship, or assessment ratio, is determined by studies conducted by the assessor and the Department. To illustrate, if the ratio of assessed to market value is determined to be 90 percent in a particular county, then the maximum state levy rate that is applied to the assessed value of each parcel would be \$4.00 (i.e., $\$3.60 / .9 = \4.00). However, the state levy is limited in the degree that it can increase each year (see discussion of 106 percent limit, Referendum 47, and Initiative 747 below). Also, in 1996 a reduction of 4.7187 percent was applied to the state levy, and this reduction has been built into the levy base which determines the maximum amount of future levy rates under the various limitations.

LIMITS ON REGULAR LEVIES. In 1972, a constitutional limit of 1 percent was adopted by the voters; this applies to all regular levies (except port and public utility district levies). It states that the aggregate of such levies cannot exceed 1 percent of the current market value of any individual property (real or personal). This limit would equate to a regular levy

rate of \$10.00 per \$1,000 of assessed value, if the property were assessed at its true and fair value. Since the assessed values in most counties are relatively close to market value, the adjustment in the state levy rate (to 100 percent value basis) is usually not extreme, and thus the constitutional limit is rarely approached.

In 1974, another limit--the "106 percent" limit--was applied to local regular levies; it was extended to the state levy in 1979. The 106 percent limit (Chapter 84.55 RCW) restricted the growth in revenues a taxing district could receive from its regular levy to 6 percent above the highest amount levied since 1986 for most districts and to the highest amount levied during the preceding three years for the state levy. Taxes resulting from value added to the tax rolls as a result of new construction were excluded from the limit. If the growth in the district's tax base was such that regular levy revenues would exceed the 106 percent limit, then the assessor adjusted the levy rate downward so that the limit was not exceeded. Taxing districts could request the voters to approve an override of the 106 percent limit. The 106 percent limit applied to total regular levy revenues from all property within a taxing district and not to an individual taxpayer's tax bill. However, the limit did reduce levy rates during times of rapid growth in property values.

In 1997, the voters approved Referendum 47 which contained a major revision in the previous 106 percent limit on regular levies. Effective for levies due in 1998, Referendum 47 modified the percentage by which a taxing district may increase its total regular levy each year. Rather than being limited to 106 percent of previous levies, the regular property tax levies of taxing districts with a population of 10,000 or more were limited each year by a new limit factor. This factor was equal to the lesser of 106 percent or 100 percent plus the percentage change in inflation (as measured by the implicit price deflator for personal consumption or IPD). To authorize an increase above the previous year's levy up to the rate of inflation, the governing board of the district had to pass a resolution by a majority vote. Referendum 47 allowed the legislative authority of the district to return to the 106 percent limit by a showing of substantial need and a supermajority vote of the governing board. Districts whose population was less than 10,000 had to pass a single resolution by a majority vote of the governing board to raise their revenue above the level received in the previous year up to 106 percent.

Another property tax growth limit was approved by the voters in November 2000. Among other tax rollbacks, Initiative 722 would have further reduced the Referendum 47 limitations on regular levy increases to a maximum of 2 percent. However, this initiative was overturned in the courts.

Most recently, at the November 2001 election the voters approved Initiative 747 which replaces the previous limits on the growth of taxing district regular levy revenues with a limit of 1 percent. The growth rate for state and local taxing district revenues specified in RCWs 84.55.005 and .0101 is now a maximum of 1 percent (or the rate of inflation, if that happens to be less than 1 percent). Local districts may override the 1 percent limit, if authorized by a majority of the voters of the district. The new regular levy limit was effective on December 6, 2001, and therefore first applied to property taxes which were due and payable in calendar year 2002.

SPECIAL LEVIES. Most taxing districts may request additional property taxes from voters of the district. These proposals are presented in terms of a total dollar amount and the levy rate is then determined by the assessed value of the district. Special levies may be used for maintenance and operation purposes or for bond retirement for capital facilities when authorized by law. "M&O" levies are generally for a one-year period, except in the case of school districts which may request approval of special M&O levies for up to a four-year period. In contrast, bond levies pay the annual principal and interest required for the term of the bond, typically 20 years. Special levies must be approved by a 60 percent majority of the votes cast. If the voter turnout does not equal 40 percent of the previous general election turnout, then approval requires at least 60 percent of a number equal to 40 percent of the prior general election vote. There is no limit on the dollar amount of special levies, except that school M&O levies can not exceed 24 percent (with certain exceptions) of the district's prior year funding for basic education (RCW 84.52.0531).

Special M&O school levies amount to \$1.2 billion annually and account for about 19 percent of all property taxes. The average statewide M&O levy rate is approximately \$2.28 per \$1,000. Total special levies equal \$2.3 billion and represent 35 percent of all property taxes.

AGGREGATE LEVIES. Total statewide levies for collection during calendar year 2004 amounted to \$6.5 billion. Well over one-half (55.5 percent) of total levies was attributable to K-12 schools; the state levy accounted for 23.4 percent; local special levies were the remaining 32.1 percent (18.8 percent for M&O levies and 13.3 percent for capital purposes). Counties represented 17.6 percent of total levies, and cities were 14.1 percent. The remaining 12.9 percent was for the various single purpose districts. Tables on the following pages provide additional detail on total levies.

The 2004 statewide average levy rate amounted to \$12.21 per \$1,000 of assessed value. Among the 39 counties the average levy rates ranged from a low of \$6.68 in San Juan County to \$15.95 in Garfield County. Assessed values for all property in a county are rarely at 100 percent of fair market value as a result of the revaluation cycles; the level indicated by the 2003 ratio was 91.4 percent. As a result, the "effective" levy rate in terms of the relationship between the property tax levies and market value of the property is somewhat less than is indicated by the levy rate. For taxes due in calendar year 2004 the statewide average effective property tax rate was 1.12 percent of the fair market value of taxable property. Thus, for example, the owner of property with a market value of \$100,000 could expect annual property taxes to be \$1,120, based on average levels of assessment and average levy rates throughout the state. A closer approximation would be obtained by comparing the average assessment level and levy rates that prevailed in a particular county, rather than using the statewide average.

AUTHORIZED REGULAR AND SPECIAL LEVY RATES
AND NUMBER OF DISTRICTS CURRENTLY LEVYING PROPERTY TAXES
(omits benefit assessments, earmarked levies, and districts that levy only for capital purposes)

<u>Taxing District / Purpose</u>	<u>Maximum Levy (Regular/Special)</u>	<u>Approx. # of Levying Districts</u>	<u>RCW Citation</u>
Special levy authority	-. (S)	--	84.52.052
Special levies - bonds	-. (S)	--	84.52.056
State levy	\$3.60* (R)	1	84.52.065
County - general purposes	1.80 (R)	39	84.52.043
County road	2.25 (R)	39	36.82.040
County - criminal justice	0.50 (R)	--	84.52.135
County - levy for refunds	-. (R)	5	84.68.040
County - veterans assistance	0.27 (R)	35	73.08.080
County - mental health/dev. disability	0.025 (R)	41	71.20.110
County - hospital	0.50 (R)	7	36.62.090
County - lands assessment fund	0.125 (R)	--	36.33.140
County - airport district	0.75 (R)	--	14.08.290
City - general purposes	3.375 (R)	282	84.52.043
City - pensions for firemen	0.225 (R)	46	41.16.060
City - disincorporation levy	0.50 (R)	--	35.07.180
City - accident fund	0.75 (R)	--	35.31.060
City - accident fund (code cities)	0.75 (R)	--	35A.31.070
City - lowlands & waterways	0.75 (R)	--	35.56.190
City (unclassified) - sewers	1.25 (R)	--	35.30.020
City (2nd class) - publicity fund	0.625 (R)	--	35.23.470
City (disincorporated) - bonds	0.50 (R)	--	35.07.180
City - monorail systems	1.50 (R)	--	35.95A.100
City/Co. - affordable housing	0.50 (R)	1	82.52.105
School - special levies up to 6 years	-. (S)	225	84.52.053
School - M & O levy limit	-.** (S)	274	84.52.0531
Fire	0.50 (R)	395	52.16.130
Fire	0.50 (R)	394	52.16.140
Fire	0.50 (R)	138	52.16.160
Fire - 2 - 6 years	-. (S)	87	84.52.130
Regional fire districts	0.50 (R)	--	52.26.140(1a)
Regional fire districts	0.50 (R)	--	52.26.140(1b)
Regional fire districts	0.50 (R)	--	52.26.140(1c)
Regional fire districts	-. (S)	--	52.26.140(2)
Port - general purposes	0.45 (R)	74	53.36.020

*rate is adjusted to reflect assessment on basis of full market value in each county.

**generally 24 percent of the district's prior year allocation with certain exceptions.

(Continued)

AUTHORIZED REGULAR AND SPECIAL LEVY RATES
AND NUMBER OF DISTRICTS CURRENTLY LEVYING PROPERTY TAXES
(continued)

<u>Taxing District / Purpose</u>	<u>Maximum Levy (Regular/Special)</u>		<u>Approx. # of Levying Districts</u>	<u>RCW Citation</u>
Port - G.O. bonds	-.-	(R)	10	53.36.020
Port - industrial development	0.45	(R)	1	53.36.100
Port - dredging/canals	0.45	(R)	--	53.36.070
Port - dissolution	0.45	(R)	--	53.47.040
Rail	-.-	(S)	--	36.60.040
Road & bridge service	-.-	(S)	--	36.83.030(1)
Road & bridge service - bonds	-.-	(S)	--	36.83.030(2)
Library districts (rural county)	0.50	(R)	--	27.12.050
Library districts (intercounty)	0.50	(R)	5	27.12.150
Library (island districts)	0.50	(R)	3	27.12.420
Library - bonds	-.-	(S)	2	27.12.222
Library - capital facilities area	-.-	(S)	7	27.15.050
Public utility	0.45	(R)	4	54.16.080
Water - district formation	1.25	(S)	9	57.04.050
Water - bonds	-.-	(S)	--	57.20.105
Irrigation	0.25	(R)	--	87.84.070
Hospital	0.75	(R)	51	70.44.060(6)
Hospital - bonds	-.-	(S)	--	70.44.060(6)
Cemetery	0.1125	(R)	87	68.52.310
Solid waste disposal	-.-	(S)	8	36.58.150
Flood control zone	-.-	(S)	--	86.15.160(1)
Flood control zone	0.50	(R)	4	86.15.160(3)
Flood control - river improvement	0.25	(R)	--	86.12.010
Flood control (intercounty)	0.25	(S)	--	86.13.010
Ferry	0.75	(R)	--	36.54.130
Ferry	-.-	(S)	--	36.54.140
Metropolitan park	0.75	(R)	3	35.61.210
Park & recreation	0.60	(R)	12	36.69.145
Park & recreation - bonds	-.-	(S)	25	36.69.140
Park & recreation service area	0.60	(R)	--	36.68.525
Park & recreation service area - bonds	-.-	(S)	--	36.68.520
Air pollution control	0.25	(S)	--	70.94.091
Emergency medical service	0.50	(R)	179	84.52.069
Emergency medical service - bonds	-.-	(S)	8	84.52.052
Metropolitan municipal corp.	0.25	(S)	--	35.58.090
Cultural arts	0.25	(R)	--	67.38.130(1)
Cultural arts	-.-	(S)	--	67.38.130(2)

(Continued)

AUTHORIZED REGULAR AND SPECIAL LEVY RATES
AND NUMBER OF DISTRICTS CURRENTLY LEVYING PROPERTY TAXES
(continued)

<u>Taxing District / Purpose</u>	<u>Maximum Levy (Regular/Special)</u>	<u>Approx. # of Levying Districts</u>	<u>RCW Citation</u>
Cultural arts	-. (R)	--	67.38.130(3)
Transportation benefit	-. (S)	1	36.73.060
Mosquito control	0.25 (S)	--	17.28.100
Mosquito control - bonds	-. (S)	--	17.28.260
Mosquito control	0.50 (S)	3	17.28.252
Conservation futures	0.0625 (R)	13	84.34.230
Reclamation district	-. (R)	--	89.30.391

Levied by

State and local taxing districts. The above list summarizes the major types of levies authorized for various types of taxing districts. For taxes due in 2004 total property tax levies amounted to \$6.5 billion, distributed as follows.

PROPERTY TAX LEVIES BY TYPE OF DISTRICT
Due in Calendar Year 2004 (dollars in millions)

	<u>Regular Levies</u>	<u>Special Levies</u>
School districts		
State levy	\$1,527.7	-.
Local M&O levies	-.	\$ 1,225.4
Local Bond levies	-.	868.8
Counties	1,100.9	47.0
Cities and Towns	847.6	71.2
Special purpose districts		
Fire protection	273.3	37.9
Ports	119.7	-.
Libraries	171.7	6.4
Hospitals	36.6	17.1
Emergency medical service	139.6	1.0
Other districts	27.1	12.5
TOTAL LEVIES	\$4,244.2	\$2,287.3

Administration

LOCAL. Property tax rates are applied to individual property values, and the tax is collected at the county level. The assessment function is the responsibility of the county assessor. In addition to determining the value of real and personal property for tax purposes, the assessor calculates and certifies levy rates for most taxing districts, assuring that the limitation on regular levies and statutory maximum levy rates are not exceeded. The assessor compiles an assessment roll showing the assessed value of all taxable property. The assessor also processes applications for senior citizens exemptions and the open space program.

The county treasurer maintains the tax roll which indicates the amount of levies that are due for each parcel and prepares the annual statement of taxes due which is sent to owners in mid-February. Owners must pay at least one-half of the tax by April 30, and the remainder is due by October 31. The treasurer receives the payments and distributes the funds to the accounts of the appropriate taxing districts, including the state.

STATE. The Department of Revenue is also involved in the administration of property taxes in order to assure uniformity throughout the state. Major programs conducted at the state level include:

- promulgation of administrative rules and procedures;
- providing technical assistance and training;
- development of manuals, forms, and maps;
- assistance with complex appraisals, upon request of the assessor;
- assessment of inter-county utility companies;
- administration of exemptions for nonprofit organizations;
- conducting ratio studies to determine the average level of assessment in each county;
- calculation of the state school levy rate;
- commercial vessels: valuation and collection of state levy;
- annual updating of the statutory forest land values;
- review and approval of county revaluation plans and programs; and
- collection of senior citizen property tax deferrals.

APPEALS. Property owners who disagree with the established amount of their assessed value may appeal to the County Board of Equalization. In the July session, the Board reviews appeals and may order a change in valuation based on the facts presented by the owner and the assessor. (Successful appeals are typically those in which the owner can demonstrate that the assessed value does not reflect market values, e.g., by citing examples by recent comparable sales in the same vicinity.) Appeals may also be made to the State Board of Tax Appeals which, like the County Board, decides only questions of property valuation - not levy rates or the amount of tax that is due. The State Board also hears appeals from utilities on the valuations made by the Department of Revenue.

PENALTIES. If payment is not received by the due dates, certain penalties apply. A penalty of 3 percent is added to the entire year's tax if the first half payment is not received by May 31 and an additional 8 percent is added if the tax remains delinquent on November 30. All delinquencies are assessed interest at the rate of 12 percent per annum. If the taxes remain unpaid for three years, the county may commence foreclosure proceedings to sell the property. The minimum bid is the amount of delinquent taxes, interest, and costs.

Recent Statewide Levy Statistics

STATE AND LOCAL ASSESSED VALUES AND LEVIES Values and Total Levies in Millions of Dollars

<u>Calendar Year*</u>	<u>Total Assessed Value</u>	<u>Total State/ Local Levies</u>	<u>Average Levy Rate</u>	<u>Effective Tax Rate**</u>
2004	\$535,208	\$6,531	\$12.21	1.12%
2003	506,839	6,254	12.33	1.11
2002	478,688	5,978	12.52	1.13
2001	441,192	5,710	12.96	1.16
2000	404,657	5,412	13.39	1.20
1999	378,791	5,083	13.56	1.22
1998	351,908	4,723	13.52	1.22
1997	330,443	4,571	13.93	1.26
1996	313,582	4,293	13.82	1.19
1995	297,762	4,010	13.53	1.22

*values and levies established the prior year which are payable in the indicated years.

**total levies divided by estimated market value derived from indicated assessment ratios.

STATE PROPERTY TAX LEVY

<u>Fiscal Year</u>	<u>Collections (\$000)</u>	<u>% Change</u>	<u>% of All State Taxes</u>
2004	\$1,524,255	2.8%	11.7%
2003	1,482,680	3.6	12.2
2002	1,431,434	4.7	12.1
2001	1,367,696	2.9	11.5
2000	1,328,690	4.2	11.3
1999	1,274,590	3.7	11.0
1998	1,229,431	5.2	11.0
1997	1,169,184	5.8	11.1
1996	1,105,289	7.0	11.1
1995	1,033,256	7.9	10.7

Distribution of Receipts

State levy - state general fund, for the support of basic education.

Initiative 728, adopted in 2000, requires that a portion of the state levy be dedicated to the student achievement fund and education construction account (RCW 84.52.068). The amount so dedicated is based on \$450 per student, adjusted for inflation. However, a lesser per student amount was approved in 2003 for the 2004-05 through the 2007-08 school years.

Local levies - deposited to the account of the taxing district by the county treasurer to be used for purposes specified by the levy, e.g., the regular levy in most cases is used for general operations of the district, whereas the proceeds of special bond levies are applied to the annual principal and interest payments. Under "tax increment financing" legislation adopted in 2001, increased local property tax revenues within the vicinity of a public improvement may be used to retire the bonds which financed the project.

Exemptions, Credits and Deductions

EXAMPLES OF EXEMPTIONS: PUBLICLY-OWNED PROPERTY

- property owned by federal, state, and local governments;
- foreign consulates;
- interstate bridges;
- leaseholds of public property (subject to leasehold excise tax);
- property of public corporations in special review districts;
- low income housing owned by public corporations.

EXAMPLES OF EXEMPTIONS: NONPROFIT ORGANIZATIONS

- churches, parsonages, convents, and administrative offices of religious organizations;
- cemeteries;
- nonsectarian benevolent and charitable organizations;
- thrift stores that sell only donated merchandise;
- camp facilities of religious organizations;
- youth character-building organizations;
- veterans organizations;
- humane societies;
- the American Red Cross;
- public assembly halls and meeting places;
- day care centers and orphanages;
- libraries operated by nonprofit organizations;
- nonprofit hospitals and kidney dialysis facilities;
- nonprofit nursing homes;
- nonprofit cancer clinics, blood banks, and certain medical research facilities;

- homes for the aging (based on number of residents that meet senior citizen exemption qualifications);
- shelters for the homeless providing emergency or transitional housing;
- privately owned schools and colleges;
- art, scientific, and historical collections and museums;
- performing arts organizations;
- sheltered workshops for the developmentally disabled;
- conservation futures and development rights for ecological systems, open space, and farm lands;
- rental housing facilities for very low income families (< 50% of county median income).

EXAMPLES OF EXEMPTIONS: PRIVATELY-OWNED PROPERTY

- rehabilitation of historic property (ten-year exemption of increased value);
- cemeteries;
- senior citizen and disabled homeowners (see below);
- certain home improvements (three-year exemption of increased value);
- multi-unit housing facilities in urban growth areas of certain large cities;
- property used to produce biodiesel, wood biomass, or alcohol fuel;
- farm machinery (exempt from state levy only).

EXAMPLES OF EXEMPTIONS: PERSONAL PROPERTY

- certain intangible assets, e.g. cash, stocks, bonds, bank accounts, etc.;
- household goods and personal effects;
- motor vehicles;
- \$3,000 of personal property for head of household;
- commercial vessels in the state for less than 120 days per year;
- recreational boats (subject to watercraft excise tax);
- goods in transit through the state;
- agricultural products following harvest, nursery stock, and crops growing on January 1;
- business inventory (items held for sale);
- custom computer software (total exemption);
- "canned" computer software (100% taxable the 1st year; 50% taxable 2nd year; then exempt).

DEFERRAL AND ALTERNATE ASSESSMENT PROGRAMS

- deferral of tax up to 80 percent of equity for senior citizen and disabled homeowners who are eligible for the exemption (see below) and have disposable income of less than \$40,000;
- assessment of approved open space and timber lands on basis of current use;
- assessment of approved agricultural lands on basis of current use (net cash rental value);
- assessed values of recipients of senior citizens exemption frozen as of 1/1/95 (or year of application).

Two of the above exemptions deserve more detailed description because they involve an application process and provide significant benefits to certain classes of property owners. One is the senior citizens exemption, which is based on the amount of household income. As authorized by a constitutional amendment adopted in 1966, homeowners who are at least 61 years of age or retired due to physical disability may apply with the county assessor for exemption on their residential property.

The senior citizen/disabled persons exemption consists of two parts based on regular and special levies that would apply to the residence. If household income does not exceed \$35,000, the residence is entirely exempt from all special levies. The regular levy portion of the exemption applies according to two levels of income: (1) if income does not exceed \$25,000, the residence is exempt from regular levies on the first \$60,000 of assessed value or 60 percent of the value, whichever is greater, and (2) if income is in the range of \$25,001 - \$30,000, the residence is exempt from regular levies on the first \$50,000 of value or 35 percent of the value up to a maximum of \$70,000, whichever is greater. For taxes due in 2004, 112,587 homeowners received a total of \$120.1 million in property tax relief under this program, with average savings of \$1,067 per household. Pursuant to a 1995 amendment to the program, homeowners eligible for this exemption may also have the assessed value of their residence frozen until the property is sold or until the applicant is no longer eligible for the program.

Related to the senior citizens/disabled persons exemption is an outright deferral of any remaining property taxes on the residence of eligible participants. If the household has disposable income of less than \$40,000, the remaining tax may be deferred until the total amount reaches 80 percent of the equity in the home. The deferred amount becomes a lien upon the residence and is repaid from the proceeds of the estate of the last surviving member of the household. This program enables low income seniors on fixed incomes to remain in their homes, as the market value of, and hence the taxes on, their residence increases. Under this program the state reimburses local jurisdictions for the loss in deferred property tax receipts.

The other major alternate valuation program, implementing a constitutional amendment approved in 1968, offers assessment of open space, timber, and agricultural lands on the basis of the current use, rather than highest and best use. Although the program does not constitute an exemption per se, the alternative valuation process does reduce property taxes for those qualifying. In theory, the program allows owners to maintain the existing use when market conditions might imply a higher value. Otherwise, the property tax would likely increase to reflect the "higher" use and might force owners of lands in transitional areas to develop the property, rather than maintain the current use.

In 1973 a method of defining the current use value for agricultural lands was established. Assessors develop a net cash rental value of comparable lands in the same area, with the assistance of a local agricultural committee. This process may result in assessed values which are substantially lower than the highest and best use values, even though the lands may not necessarily be influenced by pressures for development. Lands enrolled in the program are subject to a rollback of back taxes plus interest for the previous seven years (nine years for forest land) if the use of the land changes. However, penalties are waived if notification of the change is given two years in advance and the property has been in the current use program for at least ten years.

For taxes due in 2004, 11.6 million acres were covered by the current use program. Assessed values were reduced by an aggregate of \$8.2 billion, representing a tax savings of \$107 million for the owners.

History

This section traces some of the major events affecting property taxes in Washington. The property tax was the initial tax levied in Washington and, in fact, pre-dates statehood in 1889. The 1853 Organic Act which established territorial status required that all taxes be assessed uniformly and provided exemptions for federal property, churches, and benevolent institutions. The State Constitution continued the uniformity requirement, required exemption of government property, and allowed the Legislature to provide exemptions, including the first \$300 for head of households. The earliest available data indicates that effective property tax rates ranged from about 1.25 to 1.5 percent of fair market value during the initial years of this century. Around 1920 the tax began increasing and average effective rates in the order of 2.5 percent were common throughout the state during the 1920s and early 1930s (roughly twice the level that generally prevails today).

Efforts were made to reduce the growing burden of property tax during the early years of the Depression. A constitutional amendment adopted in 1930 allowed the classification of property for tax purposes, as long as all real estate constituted one class. Several attempts were made to establish a state income tax, in order to relieve property taxpayers. However, the State Supreme Court ruled in 1932 that income constitutes property, and thus a tax on income is subject to the constitutional uniformity requirements. Therefore, the major features of income taxes, e.g., graduated rates, personal exemptions, and deductions, were not possible. In 1933 and 1935 the state instituted major new excise taxes including the retail sales and business and occupation taxes, and these revenue sources enabled the Legislature to fund the needs of state and local government, while reducing property tax burdens.

In 1932 the voters approved an initiative limiting property taxes to 40 mills (1 mill = .001) of which the state could levy no more than 5 mills. The prevailing level of assessment was typically less than 25 percent of true and fair value, so the 40 mill limit implied a maximum effective property tax rate of about 1 percent ($.040 \times .25 = .01$). Two years later another initiative further reduced the permissible state levy to 2 mills. These limits dramatically reduced the level of property taxation throughout the state. Similar initiatives were approved every two years until 1944, when the 40 mill limit was added to the Constitution, along with formally establishing the legal assessment level at 50 percent of true and fair value. During this period major exemptions were established: certain intangibles in 1931, household goods in 1935, and motor vehicles in 1937 (subject instead to an excise tax in lieu of property tax).

The Legislature established the four-year revaluation cycle in 1955 and subsequently provided funding to assist assessors in updating assessed values. The two constitutional amendments noted above which allow the senior citizens exemption and the current use assessment program were adopted in 1966 and 1968 respectively.

Major changes affecting property taxes were instituted in the early 1970s. Laws implementing the senior citizens exemption (1967, \$50 exemption, broadened to reflect

income levels in 1971) and the open space program (1970, broadened to net cash rental basis in 1973) were passed. The 106 percent limit law applying to local regular levies was adopted in 1971 to be effective for 1974 collections (limit extended to state levy in 1979). Statutes dealing with leases of public property and timber, which ultimately led to the establishment of excise tax in lieu of property tax in both areas, were enacted.

In 1972 the voters approved a constitutional amendment (SJR 1) limiting regular levies to 1 percent of true and fair value. To implement this requirement, the Legislature increased the assessment standard from 50 to 100 percent of true and fair value and changed the levy basis from mills to dollars per \$1,000 of assessed value. The statutory allocation of regular levies, including a new state levy for schools of \$3.60, totaled \$9.15 and was first effective for taxes due in 1975.

In 1974 a phase-out of personal property tax on business inventories was approved. For ten years an increasing credit was permitted for inventory taxes paid against state B&O tax liability. Inventories became exempt from property tax starting with 1984 tax payments. Special school levies were limited to 10 percent of the district's operating budget in 1977 (increased to 20 percent in 1987). The head of household exemption was increased from \$300 to \$3,000 by the voters in 1988.

In 1995 a valuation freeze was provided for qualified senior citizen residences and a one-time reduction of 4.7187 percent in the amount levied by the state was enacted for 1996 taxes (continued the following year on a temporary basis).

A major reduction in property taxes was implemented in 1997 via Referendum 47. This measure contained three separate provisions: reduction in the 106 percent limit on annual increases in regular levies to the rate of inflation; limitation on the rate of annual growth in assessed values (ruled unconstitutional in 1998); and permanent incorporation of the 4.7187 percent reduction in the state levy rate.

In 1997, the voters approved a constitutional amendment allowing school M&O levies for up to a four-year period. The Legislature also increased the income limits for the senior citizens exemption.

A comprehensive property tax limitation plan, Initiative 722, was approved by the voters in November 2000. This proposal had five major elements: (1) rollback of all tax increases adopted during the second half of 1999; (2) exemption of motor vehicles from property tax; (3) repeal of the ability of local taxing districts to "stockpile" levy capacity; (4) limitation of increases in assessed value for individual parcels to 2 percent per year; and (5) levy increases for taxing districts limited to 2 percent annually. However, the entire initiative was ruled to be unconstitutional.

At the November 2001 election the voters were again presented with a property tax limitation proposal, which they approved. Initiative 747 further reduces the degree to which taxing district revenues may increase from year to year. Previously, annual increases in regular property tax revenues were limited to the growth rate in inflation

(currently slightly more than 2 percent), unless the voters have approved a higher rate of up to 6 percent. I-747 mandates that the annual increase in regular property tax revenues will be a maximum of 1 percent (or the rate of inflation, if lower).

Discussion/Major Issues

The property tax is no longer the largest source of tax revenue in Washington. Since the mid-1970s, the combined state/local retail sales tax has exceeded aggregate property tax levies. Nonetheless, total property tax levies amount to \$6.5 billion, and the property tax clearly remains the most important revenue source for local governments. Distributions of local sales tax to cities, counties, and transit districts during calendar year 2003 amounted to \$1.9 billion, whereas property tax levies by all local taxing districts for collection in 2003 totaled \$4.8 billion.

Compared with most other states, the property tax burden in Washington is now somewhat below the national average. The latest year for which comparable data for all states are available is fiscal year 2002. In relation to personal income, combined state and local property taxes in Washington amounted to \$29.94 per \$1,000 of income. This ranked 28th from the highest state (Maine at \$54.81) and was well below the national average of \$32.07. On the basis of population, Washington property taxes in fiscal year 2002 equaled \$954 per capita, which ranked 20th.

Virtually all citizens are affected by property taxes, either by the taxes they pay as homeowners or the component of rents attributable to taxes paid by landlords. Politically, property taxes are a sensitive issue, and the Legislature and citizens often react when property taxes rise more rapidly than usual (witness Proposition 13 in California, as well as the constitutional and statutory limits enacted in this state).

There are certain desirable features of the system. The tax is well established and has been in operation much longer than other taxes. Unlike many of the state excise taxes, property taxes are quite visible, and taxpayers are aware of their annual liability. However, many financial institutions pay the tax directly out of loan reserves, and this tends to lessen the recognition of the owner's true tax liability. Administration occurs largely at the county level, which gives taxpayers a sense of local control. Further, the cost of many services provided by local government (streets, schools, police and fire protection, etc.) correlate well with property values.

Property taxes also suffer from undesirable features. The tax may have been better suited to an agrarian economy when property values equated more closely with economic well-being. In today's economy, property ownership is only one measure of an individual's wealth. Compared with other taxes which rely upon voluntary compliance, administration costs are high because of the appraisal process which requires that each parcel be periodically re-examined and revalued. Property tax revenues depend upon the location of developments, manufacturing facilities, etc. As a result, property tax receipts can vary widely among taxing districts. Thus, "poorer" taxing districts (in terms of the

value of the tax base) may realize less revenue than other districts, or they might require higher tax rates to generate the same receipts as others.

The appraisal process is not always understood by property owners, and disagreements and appeals of value may result. Despite limitations, property values are directly influenced by inflation and in-migration. In particular, during recent years there has been a very rapid growth in market values in certain areas in King County, resulting in escalating housing prices fueled by very high incomes in certain high tech industries. This has the effect of increasing valuations for all properties in the area. Thus, an owner's taxes can increase markedly in the year after the revaluation occurs, even when there may be no corresponding increase in the ability of the owner to pay. This can impose financial difficulties for households whose disposable incomes may not be growing as fast as inflation rates.

Finally, the tax is considered regressive, especially at lower income levels. The senior citizens exemption helps offset the regressive impact for qualified households, but for many other low and moderate income families, particularly those on fixed incomes, the ratio of their property tax to their household income may be significantly higher than for individuals at higher income levels.